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AUGUST 1988
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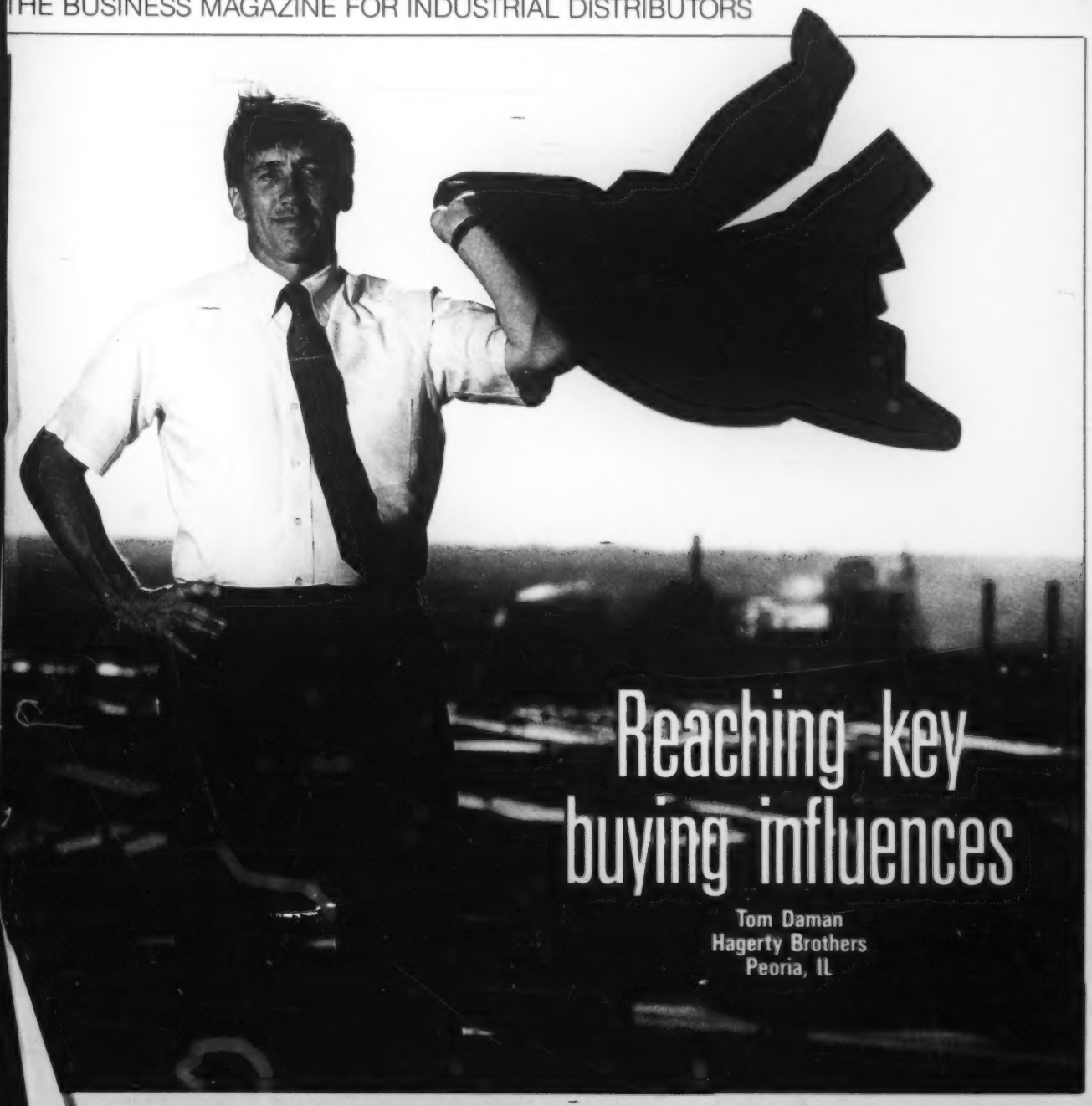
Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Acquiring bearing expertise



Reaching key buying influences

Tom Daman
Hagerty Brothers
Peoria, IL

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 8 AUGUST 1988 A CAHNERS PUBLICATION

Tom Daman, special accounts manager for Hagerty Bros. Co., tells how to sell to the entire plant.

COVER STORY—SELLING

34 Selling to the shop floor

Leading industry pros discuss the critical role shop employees can play in final purchasing decisions. This ID feature reveals strategies and tips to help your salespeople cover the entire plant.

SPECIAL REPORT

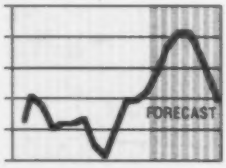
48 Exporting leads to profits

Distributors and manufacturers who exported in 1987 enjoyed higher sales than those that didn't, according to an exclusive ID survey of attendees at the TIS Convention.

MANAGEMENT

30 Inside Distribution
Small businesses: the new leaders.

83 Business Report



Machine tools showing strength. Sales reflect across-the-board improvement.

85 Supply Outlook
Supply conditions to remain tight; economy expanding at a healthy clip.

90 Clifton on Management
Distribution is facing the "winds of change."

SALES & MARKETING

39 Acquire bearing know-how
Selling bearings requires technical expertise. Part of ID's How to Sell series.

53 Strictly for Sales
Take customer complaints in stride.

DISTRIBUTORS' UPDATE

7 Distribution Briefs
GE division goes single source; I.D.A. to launch membership drive; PT executives form network.

9 News
National survey identifies JIT as growing trend; Panel focuses on ways to sell today's customers; Personnel study helps distributors with hiring.

25 Washington
Court of Appeals stalls OSHA's hazard communications standard.

27 Letters

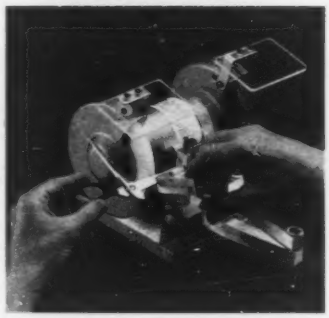
54 Calendar
A list of upcoming events.

57 Association News

PROFITABLE IDEAS

59 Computers
Communicating electronically is easier and faster.

61 Products for Profit



What's new for stocking and selling.

75 Literature
Manufacturers' brochures, catalogs and data sheets.

87 Business Staff

88 Classifieds

89 Advertisers' Index

NEWS

JIT seen as a growing trend

Nine out of ten manufacturers and distributors responding to a national survey view just-in-time as strategically vital

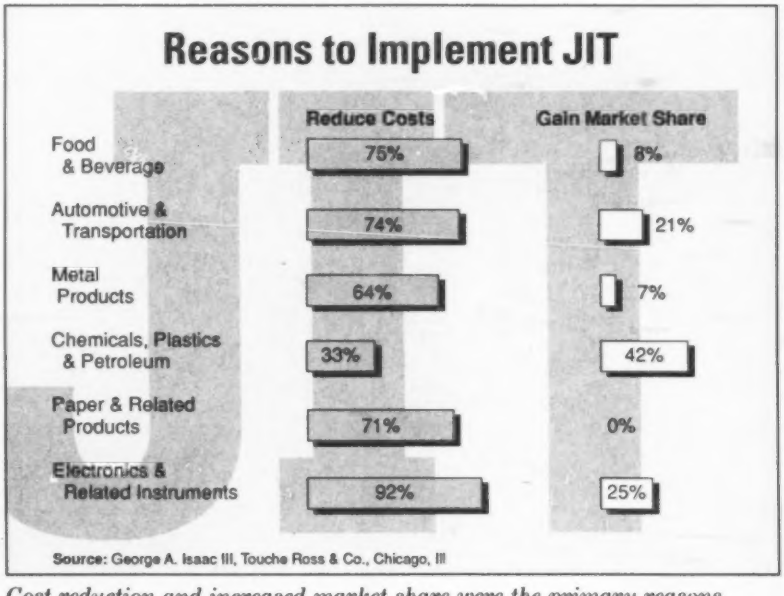
More than 50% of the respondents to a recent survey by management consultants Touche Ross & Co. say they are either planning or starting up just-in-time (JIT) programs.

JIT is a management philosophy that is designed to eliminate waste through delivery of the right product in the required amounts precisely when needed.

As major end-users seek to reduce costs while at the same time increase market share (see chart), industrial distributors have been seen by businesses as a key link in the JIT chain.

George A. Isaac III, a management consulting partner in the Chicago office of Touche Ross, maintained that those not currently evaluating or implementing JIT were "clearly in the minority."

"JIT is the response by American business to the challenge of international competition and the demand for quality," noted Isaac. "A JIT approach provides companies with the ability to deliver products under short leadtimes with minimal inventory investment. The purpose of our study was to measure the progress being made by businesses in implementing JIT logistics."



Cost reduction and increased market share were the primary reasons cited for implementing JIT.

JIT LEADS TO FEWER VENDORS

According to the study, which was based on about 180 responses, manufacturers with fully operational JIT programs have reduced their number of primary vendors (which includes distributors) by 42%, compared to a 5% reduction for companies not planning to implement JIT.

"Companies purchasing more goods from fewer vendors are in a position to influence vendor quality control programs and reduce purchase leadtimes," said Isaac. "They also become more interdependent with those vendors, motivating both parties to engage in a more cooperative, joint venture relationship."

One measureable impact of this partnering relationship (ID: April '88) is that as JIT companies reduce their number of vendors, they become more satisfied with the vendors' quality. Nearly 60% of the respondents with fully operational JIT programs were very satisfied with the quality of their vendors, while only 18% of those in the planning stage were as pleased.

With this vendor satisfaction co-

mes increased service. For example, 79% of the respondents with fully operational JIT programs provide daily deliveries to their customers. Some 58% of the respondents provide multiple deliveries per day.

In addition, JIT companies are implementing innovative distribution techniques, with 74% of the respondents having fully operational programs providing customized inbound routes. This compares to 54% of repondents not implementing JIT.

JIT DOESN'T COME EASY

If there is one caveat that Isaac offered while discussing the report, it is that JIT does not come without its own set of obstacles.

"The one thing that I always tell my clients is that implementing JIT requires extensive planning," he explained. "One of the more significant issues to address while implementing a JIT program is to properly define the JIT service levels that will meet your particular customer's needs."

Isaac said that the problems most frequently cited by the respondents included organizational resistance, lack of systems support, manufacturing capability constraints, inadequate quality of purchased goods, inability to define service levels, and poor JIT implementation planning.

"There are a number of reasons why companies face these obstacles when implementing JIT," noted Isaac. "JIT principles require more cooperation and interdependence among departments and between companies. In addition, JIT impacts all areas of a company's organization and requires a major culture change for most businesses." However, our survey indicates that despite these problems, companies will continue to plan for and implement JIT to gain the competitive advantage it offers."

For more information on the study, contact Isaac at (312) 819-9174. □

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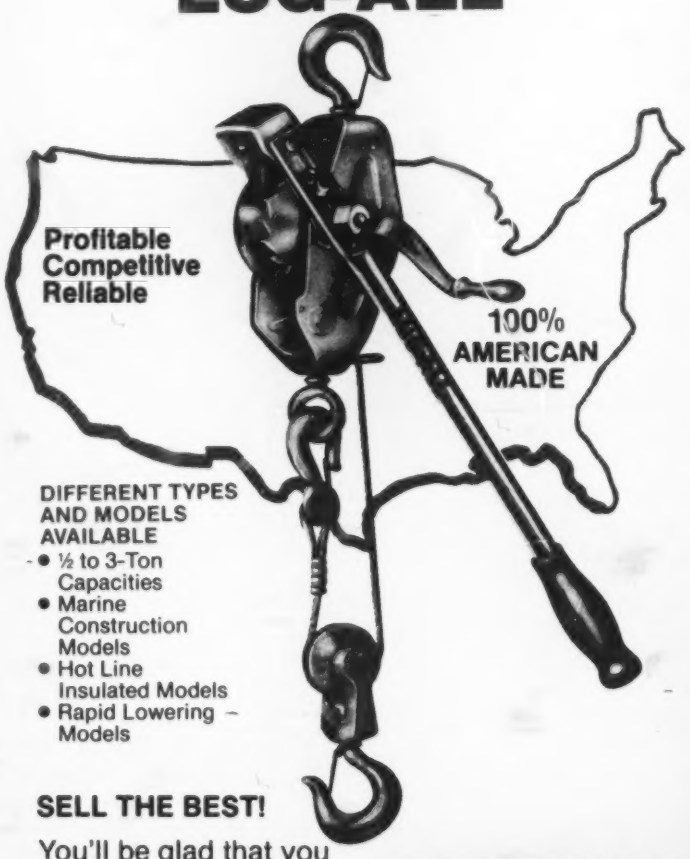

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Panel focuses on ways to sell today's customers

LAS VEGAS, NV—Distributors are dealing with a new breed of customer today, one who is more sophisticated and educated in buying tech-

The days of the "good old back slapping" salesperson are over, noted panelist Ronnie Scott.

NEWS

Washington/Baltimore seen as prime area for distributors

BALTIMORE, MD—The Washington/Baltimore Metropolitan area is one of the fastest growing wholesale distribution markets in the country.

This was one of the conclusions of a report published earlier this year by the Washington/Baltimore Regional Assn. (WBRA), a trade alliance consisting of the region's leading companies.

Based on the report's findings, the wholesale distribution industry grew significantly in the Washington/Baltimore area during the past decade, with wholesale employment increasing an estimated 51.3%. In addition, the number of new wholesale establishments grew 34.8%.

Ray Weiss, WBRA's director of communications, noted that the local growth statistics can be compared to national figures, which showed an estimated 23.1% jump in wholesale employment and a 15.4% increase in new wholesale establishments.

Weiss explained that the WBRA report was a follow-up to research conducted last year by New York City-based consultant L. Clinton Hoch. In that study, the WBRA learned that the Washington/Baltimore area is underwholesaled, and that industrial and consumer goods are being imported from other nearby wholesale centers.

"Once we saw the results of Hoch's report, we decided to investigate the wholesale distribution industry further," Weiss said. "Our purpose in publishing the report was to point out to both outside investors and those already doing business here the fantastic growth opportunities that exist."

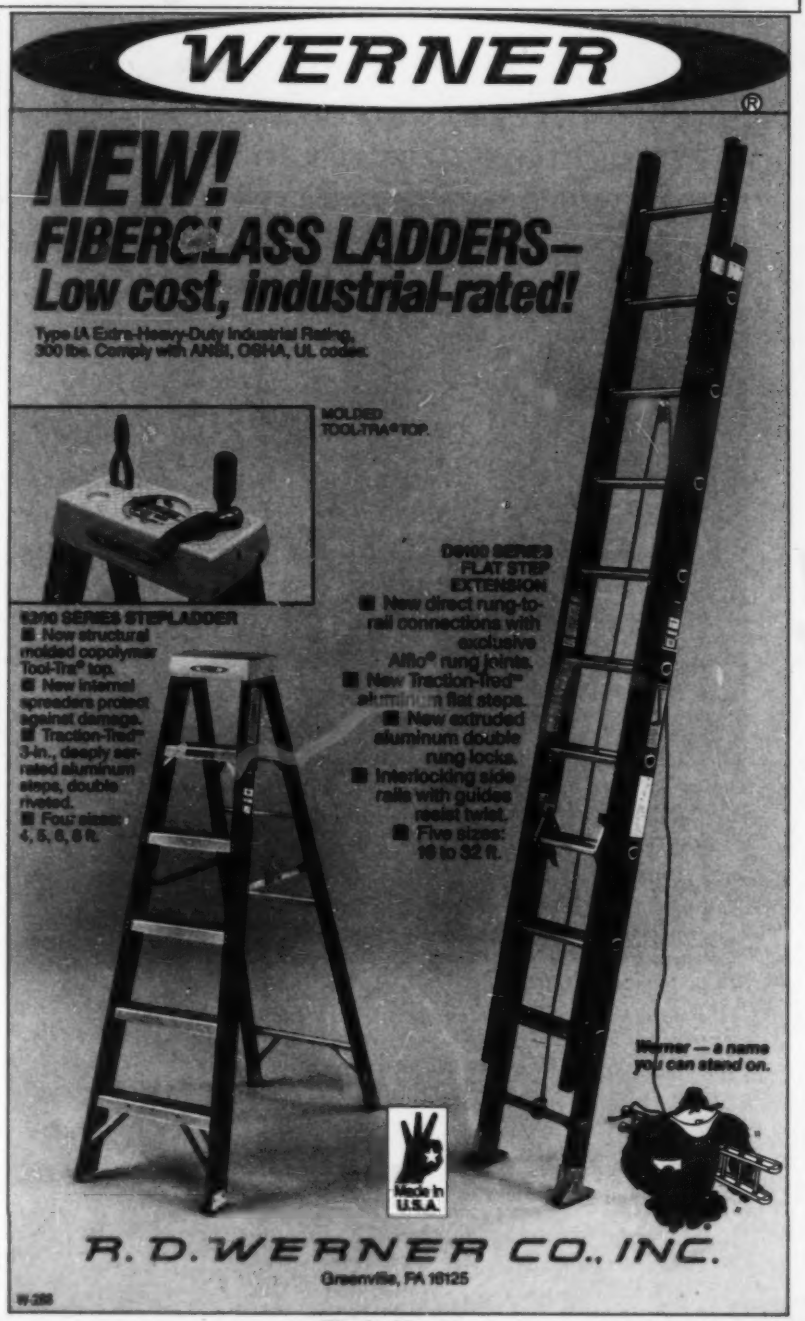
Weiss stated a number of reasons why Washington/Baltimore is a prime growth market. For starters, the region has 5.9 million people, making it the 4th largest market in the country.

Beyond market size and of more interest to distributors, people living in the region tend to be white-collar professionals who possess the com-

Wholesale Distribution Industry U.S. & Washington/Baltimore Region (1977-1987)

		1977	1985	1987	% increase
U.S.	Employment	4,708,000	5,717,000	5,797,000	23.1
	Establishments	382,837	438,141	442,000	15.4
	Sales ($ billions)	$1,258.5	$2,278.9	$2,474.3	96.6
Wash./Balt.	Employment	94,500	131,100	143,000	51.3
	Establishments	5,529	7,242	7,456	34.8
	Sales ($ billions)	$22.0	$38.0	$41.2	87.2

By far, the Washington/Baltimore area leads the rest of the U.S. in creating new jobs and companies in the wholesale distribution industry.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puter and office skills distributors need to staff their businesses. In addition, Washington/Baltimore handled $14.6 billion in federal contracts during 1987, ranking it 2nd in the nation behind the greater Los Angeles area.

For more information on the WBRA report, contact Weiss at (301) 685-0155. □

Channellock buys Upson Tools

MEADVILLE, PA—Channellock, Inc. purchased Rochester, New York-based Upson Tools earlier this year for an undisclosed amount of cash.

William S. DeArment, Channellock's president, said the acquisition broadens the company's specialty screwdriver product line.

"Instead of being a private label for a manufacturer in this product category, we can now be the primary supplier," DeArment said. "This move should reduce our costs significantly."

DeArment said that while Channellock plans to continue operating the Rochester plant, the complete line of Upson screwdrivers will be sold under the Channellock trade name.

He noted that the Upson products will go to market through Channellock's network of industrial distributors. □

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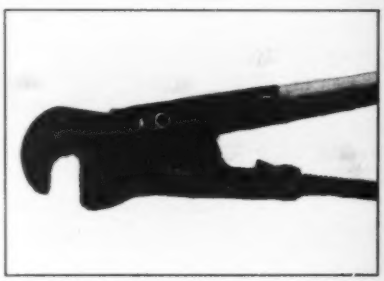
Bahco marks 100th year with special tool

DOYLESTOWN, PA—Bahco Tools is celebrating its 100th year in business by marketing a commemorative edition of the world's first universal pipe wrench.

According to Rick Bodenschatz, Bahco's national sales and marketing manager, the wrench, an updated version of the original model, is available in 9 sizes with jaw capacities between 1 and 6 5/16 in.



To celebrate its 100th year, Bacho Tools has issued a special edition of its universal pipe wrench.

Bodenschatz said Bahco hopes the tool will be a momento its users can cherish for decades. "We work in an

EXPORT PRODUCTS IMPORT PROFIT$

By John G.F. Bonnanzio
Associate Editor

During May's Triple Industrial Supply (TIS) Convention in Orlando, FL, ID conducted two separate surveys. The first was with distributors who were members of the National and Southern Industrial Distributors Assns. (NIDA/SIDA); the second with members of the American Supply and Machinery Manufacturers' Assn. (ASMMA).

The *TIS Questionnaires* (which were circulated during the Conference Booth Program) sought, in part, to measure the three associations' sales performance. Additionally, ID tried to assess the effects of the nation's export surge, and see how it has impacted distributors and their suppliers.

In yet another exercise carried out during the Triple, ID asked distributors to identify the single most important issue they face in the year ahead. A sampling of their views begins on p.51.

In terms of sales, have the past 12 months been more prosperous for the distributor or the manufacturer? Based on results obtained from the *TIS Questionnaires*, both groups had good fiscal years, but with one important difference.

Among distributors, 82% indicated that sales had risen an average of 16% during the past 12 months. For manufacturers, 84% increased their sales an average of 18% (see Table 1).

On the losing side of sales, distributors fared far worse than their suppliers. For example, while 8% of manufacturers lost sales, performance was down only 1.23%. In contrast, for the 7% of NIDA/SIDA distributors reporting falling sales, the intensity of their losses was far greater, at 8.75% (Table 2).

One likely explanation for this difference in performance is exporting. Although fewer than 17% of distributors sell abroad, of those who do, 60% claim their companies have benefited from the nation's recent export surge. Figures also show that exporting distributors outperformed those businesses content with domestic markets.

For the non-exporting distributors with increasing sales, 12-month performance figures climbed 14.57%, while exporting distributors increased sales 22.22% (Table 3). Similarly, the intensity of sales declines was far less for the exporter as opposed to the non-exporter. While 10% of exporting distributors lost only 2% of sales, non-exporting distributors lost 11% of their sales.

Perhaps somewhat dramatic, though no less meaningful, were distributors' and manufacturers' opinions on the issue of exporting (Table 4). Not only are exporting distributors twice as likely to credit overseas markets for increased sales as non-exporters, but manufacturers credit export markets as well for rising sales. In fact, 71% of exporting manufacturers feel their companies have recently benefited from international markets, and only 20% said that they haven't.

While industrial distribution is rarely considered a business suitable to exporting, the *TIS Questionnaires* found businesses engaged in trade not only with Mexico and Canada, but with South Korea, India, Singapore, Sudan, the Middle East, and the Far East. From a slightly different perspective, several Canadian distributors were also found to export abroad and, for them, their market is the best of all—the United States.

Canadian interest in the U.S. is an obvious one; after all it's the world's largest import market. But why isn't the Canadian market as obvious to the American distributor? Xenophobia may be one explanation, and trade restrictions another. But the most likely reason is that, historically, small American businesses are often intimidated by difficulties arising from language, culture, distance, currency and, most threatening of all, fear of the unknown.

OPPORTUNITY ABROAD

For the 87% of ASMMA members who do export, apparently no corner

of the globe is too far to reach. In fact, the only regions of the world not mentioned as markets were the Soviet Union and the Eastern Bloc, although even China appears on ASMMA's customer list.

Among all ASMMA members, 1 in 10 neither exports nor has intentions to start. What this could mean for the savvy distributor is an opportunity to export product abroad. Before doing that, however, the distributor must know which products are needed where, and fortunately this information is now readily available.

As an adjunct to the U.S. Dept. of Commerce's (DOC) "Export Now!" program, a custom-tailored market research report, the "Comparison Shopping Service" is offered for only $500. Additionally, other export services are provided free through DOC's 47 regional offices. Information may be obtained by calling their customer service desk in Washington, DC at (202) 377-2432.

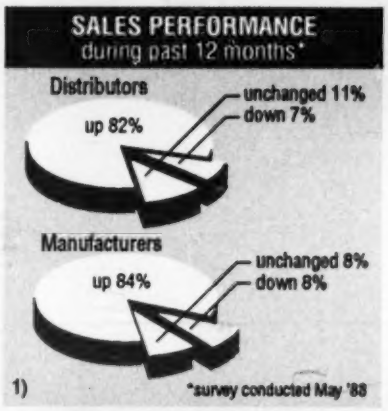
Although the *TIS Questionnaires* lacked the appropriate data to address why so many ASMMA members don't export, manufacturers were asked if the U.S. needs additional tariffs and protectionist trade barriers to remain competitive in world markets. Surprisingly, among exporters 54% said "no," 31% replied "yes" and 15% didn't know.

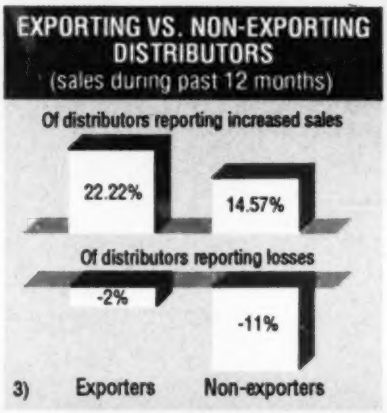
FUTURE VISION

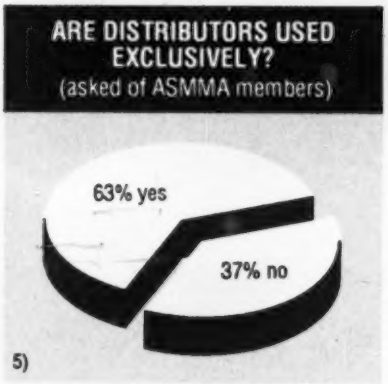
As the stated purpose of the Triple is bringing manufacturer and distributor together, it seemed only appropriate to ask manufacturers whether distributors are used exclusively for industrial products. As Table 5 indicates, 63% do use distributors exclusively for reaching their markets, while 37% do not.

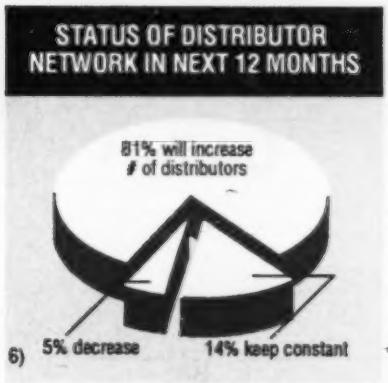
As ASMMA members sell literally thousands of different products to hundreds of different industries, it should not be surprising that so many manufacturers step outside the industrial distribution channel. In addition, a number of ASMMA members sell to original equipment manufacturers where only direct marketing is efficient, and still others sell industrial grade products through retailers and wholesalers where, again, efficiency in reaching the end user is the name of the game.

Reflecting manufacturing's sales gains, ASMMA members see an expanded role for distribution in the year ahead. By an overwhelming majority, manufacturers indicated that they would increase their total number of distributors during the next 12 months (Table 6). Conversely, only 5% thought they would decrease their distributor support, and 14% will leave their distributor network unchanged.







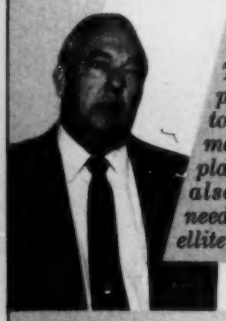


Back on the distributor side, ID asked NIDA and SIDA members whether they thought general line or specialty distributors were more profitable. Although twice as many generalists as specialists responded, by a margin of 2 to 1 distributors think specialty houses are more profitable than general line houses. More precisely, 52% selected specialists, 24% picked generalists and the remaining 24% didn't know.

Although distributors couldn't agree on profitability, one subject that they and manufacturers could agree upon was politics. As reported in last month's *Washington* column, when Triple attendees were asked which political party they felt could best provide the U.S. with economic prosperity, 92% selected Republicans, and "other" out-voted Democrats 5% to 3%. Even if the industry can't agree on little matters like pricing, at least on election day they can all take comfort in knowing that their colleagues are supporting their favorite candidate. □

What is the biggest challenge facing your distributorship in the year ahead?

The above question was posed by ID editors to distributors attending May's Triple Industrial Supply Convention. Some of the most revealing replies follow:



"Our biggest challenge this year will be supplying the new Toyota assembly plant. We have to supply in the manner the new plant needs, and also meet the needs of the satellite plants."

Jess C. Sparrow
Neill Louisville Supply
Louisville, KY

"In part, we'll open a branch. When you open a branch you have hundreds of details that must be taken care of—after you've been in a location since 1945, you know that market."

Jack Holloway
Holloway Brothers Tools
Wilmington, DE

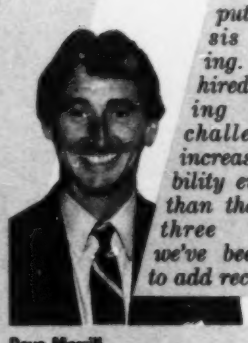
"Accounts receivable and the collection of money is getting more difficult. Industry as a group should take some sort of stand."

Herbert Denish
Great Lakes Tool Supply, Inc.
Cleveland, OH

"The most significant challenge we face is finding qualified people. It's the same challenge we've had for the past few years. If I could find a qualified person today, he'd be starting for us tomorrow."

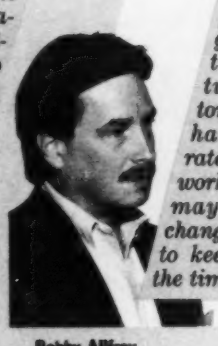
Dean Gross
Transply, Inc.
Dillsburg, PA

"We're going to put more emphasis on marketing. We've also hired a purchasing pro. Our challenge is to increase profitability even more than the two or three points we've been able to add recently."



Dave Merrill
National Mill Supply, Inc.
Fort Wayne, IN

"Over the last five years, in general, relationships between distributors and vendors have deteriorated. We have to work on that. We may have to change our ways to keep up with the times."



Bobby Allfrey
Noland Co.
Decatur, AL

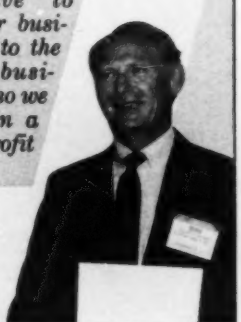
"Our challenge is to learn how to use our computer to help our customers, and in this way increase service levels. This, in turn, lays the groundwork for future growth and expansion."

Joan Hoppock
General Industrial Tool & Supply
North Hollywood, CA

"We're looking to respond to opportunities with American-made tooling by taking advantage of the more competitive dollar, especially against the yen. We also have to align people with the proper accounts."

Dennis Winiarski
Deleco-Thompson, Inc.
Moline, IL

"We have to match our business plan to the dominant business trends so we can maintain a reasonable profit level."



Dennis W. Strauss
Cutting Tools, Inc.
Minneapolis, MN

BUSINESS REPORT

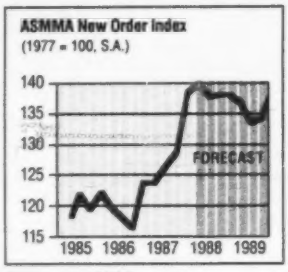
BY KRIS BLEDOWSKI

Machine tools showing strength

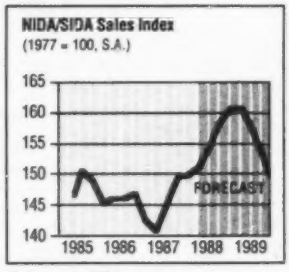
Orders indicate strong demand for various capital goods

As the economy keeps expanding during the midyear, demand for machine tools rises as well. Orders for machine tools are a good indicator of capital spending since these tools are used primarily for the manufacture of durable equipment.

The latest miniboom in the machine tool industry presages strong upcoming demand for various capital goods. That means American manufacturers see good times ahead and are willing to invest in future productive capacity. Both strong demand from overseas and predictions of a stable dollar add fuel to production managers' fires.



Data source: ASMMA
Forecast source: Cahners Economics

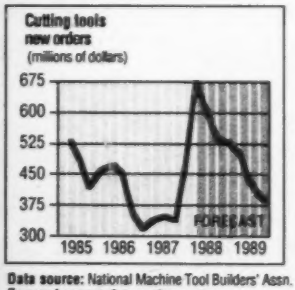


Data source: NIDA
Forecast source: Cahners Economics

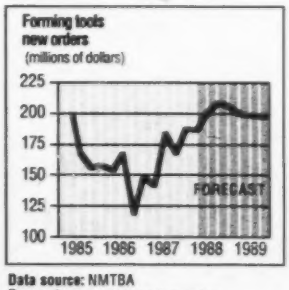
Among consumers whose purchases increased the most were auto producers that upgraded the design of their engines, transmissions and body parts. More tools were also ordered by aerospace, construction and agricultural machinery manufacturers, those industries whose products are experiencing a strong upsurge of foreign orders. In addition to being shipped directly overseas, new machine tools are also used as intermediate production input into other export goods.

Orders for new machine tools rose to $324.8 million in May, the highest monthly total since March 1981, and were 28.4% higher than in April. Foreign orders have risen nearly 281.7% since May 1987. The industry has been operating at near capacity and it often takes from six months to a year to bring custom tools to market.

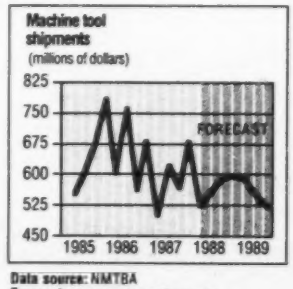
Says James A. Gray, president of the National Machine Tools Builders' Assn., "The good news is even better news because the rise is not concentrated in any particular segment of the industry, but reflects an across-the-board improvement in orders for U.S. machine tools. American manufacturing is making a comeback. U.S. manufacturers are upgrading their plants, becoming more efficient and more cost competitive. □



Data source: National Machine Tool Builders' Assn.
Forecast source: Cahners Economics



Data source: NMTBA
Forecast source: Cahners Economics



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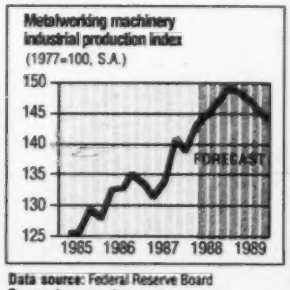


Data source: Federal Reserve Board
Forecast source: Cahners Economics

SALES BY REGIONS (% change)	SALES (%) April '88 vs. April '87			RECEIVABLES (# of days) Apr. '88 vs. Apr. '87						INVENTORIES		
	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Increase Levels	Remain The Same	Decrease Levels
NEW ENGLAND CT, RI, MA, NH, VT, ME	-3	4	7	44	41	42	40	41	42	29	29	43
MID-ADLANTIC NY, NJ, PA	7	24	6	47	64	38	50	57	41	36	55	9
SOUTHEAST DE, DC, MD, VA, WV, GA, NC, SC, FL	6	23	6	38	44	35	49	49	38	41	50	9
NORTH CENTRAL OH, IL, IN, MI, WI	-58	-23	38	37	46	41	38	49	43	47	35	18
SOUTH CENTRAL AL, MS, KY, TN	-11	26	3	37	46	43	36	49	43	47	35	18
MIDWEST MN, ND, DS, IA, NE, KS, MO	-27	1	12	26	21	37	28	20	40	47	42	11
SOUTHWEST AR, LA, OK, TX	7	2	0	44	40	17	43	38	20	38	58	4
MOUNTAIN NM, AZ, CO, UT, NV, WY, MT, ID	89	7	-2	50	51	34	56	46	36	39	44	17
PACIFIC CA, OR, WA	-15	4	1	35	50	39	36	50	44	42	42	17
U.S. TOTALS	4	-6	8	40	47	37	40	47	39	42	44	14

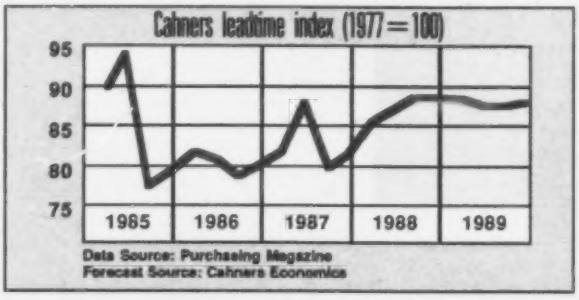
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Supply conditions to stay tight

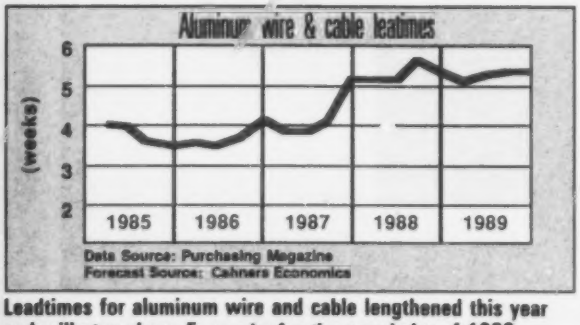
Inflation, however, is likely to rise only marginally

The economy keeps expanding at a healthy clip. It is now believed that GNP will grow between 3.0 and 3.5% this year, about half a percentage point higher than previously predicted. Domestic demand will stay strong while foreign orders are generally expected to be higher. A stable dollar and expanding foreign economies should help exports further. Says Beryl Sprinkel, chief economic adviser to the White House: "Not only is the economy continuing hale and hearty, but we are also getting the trade adjustment we need." The nation's productive capacity is also expanding, with firms adding machinery and other equipment to fill a larger volume of orders. In primary industries like paper, aluminum and steel, investment in fixed capital equipment is up by as much as 20% over last year.

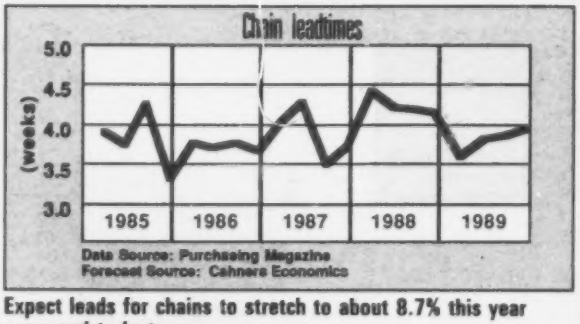


As a result of this expansion, leadtimes have lengthened further. The Cahners leadtime index rose 4.6% in the first quarter and another 1.8% in the second quarter of 1988. Leadtimes should reach record levels in the fourth quarter and ease off marginally throughout 1989. Aluminum wire and cable leadtimes have jumped to over 5 weeks so far this year, and overall are expected to be about 20% longer than last year's. Likewise, forgings and steel wire leadtimes will be longer due to higher volume of orders and high capacity utilization.

In spite of tighter supply conditions, inflation is likely to rise only marginally this year. The drought is expected to hike prices of foodstuffs, but because these represent only a small fraction of GNP, the overall inflation rate will not be affected. Expect prices to climb by less than 5% in 1988. More significant price increases will occur in industries which are running out of capacity and cannot fill orders, such as paper, primary metals, machine tools, and aerospace. □



Leadtimes for aluminum wire and cable lengthened this year and will stay above 5 weeks for the remainder of 1988.



Expect leads for chains to stretch to about 8.7% this year compared to last year.

Leadtimes for the fabricated metals industry, which is booming, are expected to exceed 9 weeks for the rest of '88.

Leads of steel wire have declined steadily since 1985 but will lengthen as the industry is operating at high capacity.

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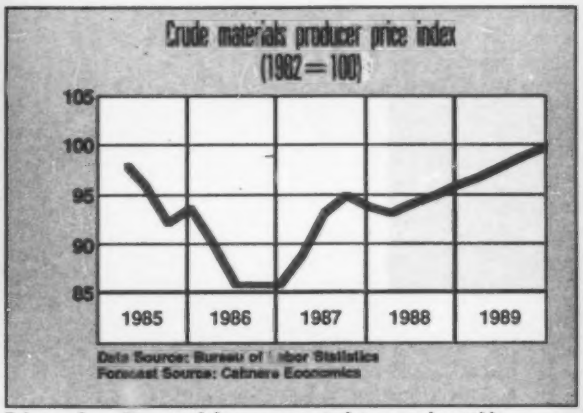
Circle No. 95

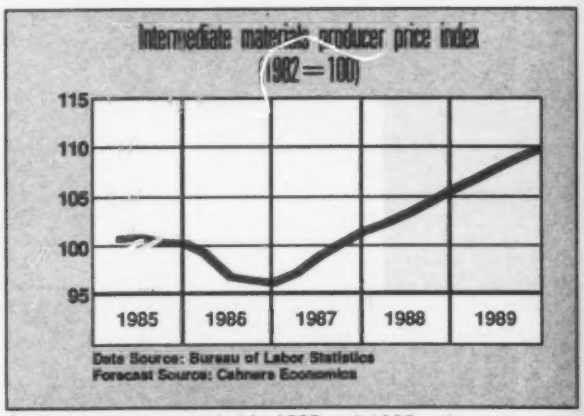
SUPPLY OUTLOOK

Moderate Inflation Expected

The producer price index for intermediate materials, supplies and components advanced 0.6% seasonally adjusted from April to May, slightly less than April's but the same as March's increase. While most intermediate categories showed slower rates of increase compared to the month before, the energy component increased markedly for the second consecutive month following several months of weakness. Prices for industrial chemicals, paperboard and woodpulp continued to move up as did prices for plastic resins. Moderation was evident in the construction materials market, which rose only 0.2%.



Prices of crude materials are expected to remain stable throughout 1988.



As the economy expanded in 1987 and 1988, prices of intermediate materials crept up at an increasing rate.

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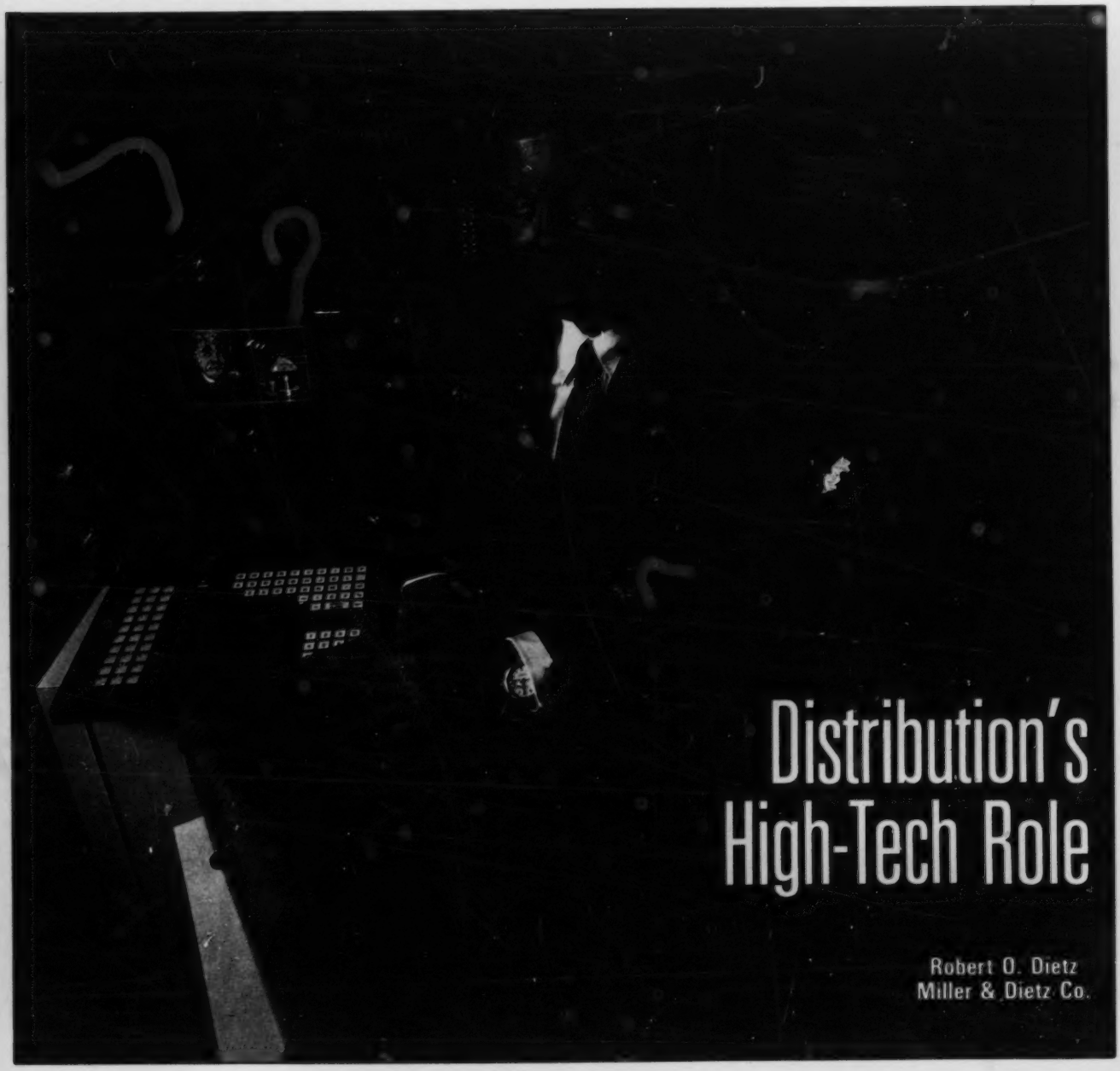
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Goodyear's Mercer on Staying Competitive



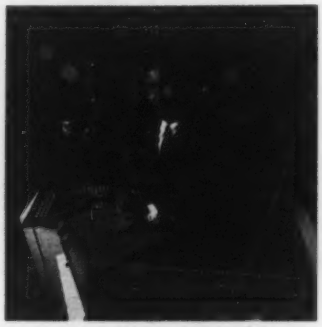
Distribution's High-Tech Role

Robert O. Dietz
Miller & Dietz Co.

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 9 SEPTEMBER 1988 A CAHNERS PUBLICATION



Robert O. Dietz of Miller & Dietz tells what it takes to succeed in the burgeoning high-tech market.

Cover photography by Eugene Mopsik

COVER STORY—

30 High-tech distribution

An ID special report on automation and high-technology distribution. This section examines manufacturing's need to automate and new opportunities for distributors in high-tech markets. A product review follows this report.

MARKETS

59 A global look at competition

In an exclusive interview, Robert Mercer, chairman and CEO of Goodyear Tire and Rubber Co., discusses the importance of manufacturers working together to maintain competitiveness at home and abroad.

MANAGEMENT

27 Inside Distribution

Establishing a rapport with the new Administration is a must for distributors.

93 Supply Outlook

New fears of rising inflation.

94 Clifton on Management

Bar codes are an emerging marketing tool for distributors.

SALES & MARKETING

65 Strictly for Sales

Are distributors spending enough time training inside salespeople?

DISTRIBUTOR'S UPDATE

7 Distribution Briefs

MSC Industrial acquires six Amfac locations; DoAll takes on new lines; Burlington sets up EDI program; WATT Group's sales exceed $100 million.

9 News

The founding of the marketing cooperative ID One ignites a storm of protest among some distributors; strong machine tool sales signal good news for general line distributors.

25 Washington

Recent Supreme Court decisions affect distributors significantly.

67 Association News

69 Calendar

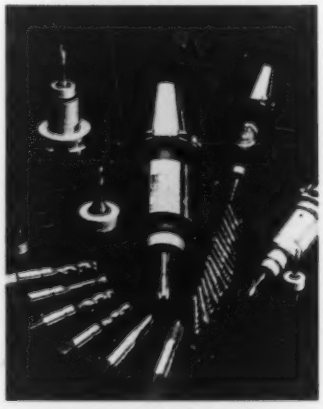
Upcoming events of interest to distributors.

73 Computers

Computer vendors focus on distribution as a major market.

PROFITABLE IDEAS

75 New Products for Profit



The latest products available from leading suppliers.

89 Literature

New brochures, catalogs and data sheets from selected manufacturers.

92 Classifieds

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The High-Tech Market

By John G.F. Bonnanzio, Associate Editor

Productivity, quality, flexibility. Together, these words form the cornerstone of a "new industrial revolution" which is rapidly changing the workplace of today into the fully automated factory floor of tomorrow.

Orchestrating this revolution is a new breed of high-tech distributor who uses "solution selling" and microchip technology in a redefined era of automation. Responsible for making the Information Age a reality, tiny crystalline circuitry is now invading Smokestack America where, ironically, the presence of Silicon Valley was once feared most.

Today, however, manufacturing is finding itself the greatest beneficiary of this still developing technology and, in fact, its very fate may rest upon the delicate shoulders of the chip. In a true sense, these information systems perform as the brains and nervous systems of both manufacturing systems and the products themselves.

Ultimately, engineers dream of the day when a customer can specify the size, shape, color, and quantity of a product directly to the plant, while a fully automated factory designs and produces the product to the customer's exact specifications.

While that factory exists only in the minds of visionaries, computer integrated manufacturing (CIM) combined with the power of computer aided design and manufacturing (CAD/CAM) is bringing some industries remarkably close to this latest phase of business automation. Until that phase is finally realized, however, high-tech distributors are focusing their attention on digital process controls, the latest technology at hand for controlling and automating manufacturing processes.

The reason for automation is not to create a people-less workplace, but rather to control processes that demand monitoring and refinements for maximum productivity.

Digital process control systems provide manufacturers with the advantages required to maintain a competitive edge. To the high-tech distributor, such systems represent a means to save customers money and harvest considerable margins in the process.

Despite what microchips can offer business, large, complicated and expensive process control systems could not exist without a market, and suffice it to say, such a market could not be any more promising for high-tech distributors than it is today.

The promise of payback, says high-tech distributor Bob Reese, is what sells a quality control system.

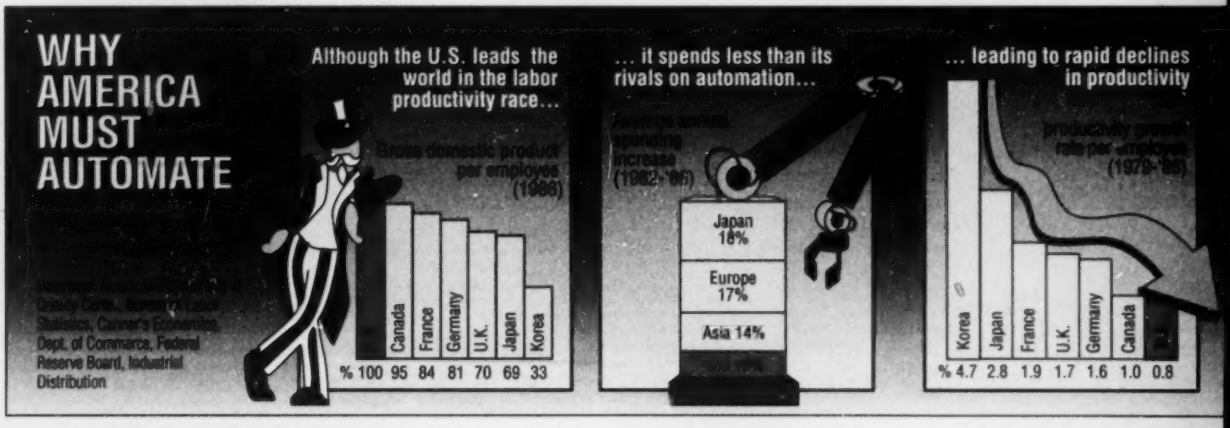
THE U.S. AUTOMATES

When distributed digital controls first arrived in the late 1970s, the cost was prohibitive to all but the largest operations. What was available were much less flexible (and less expensive) dedicated controls.

As manufacturers gained product know-how and the cost of technology fell, slimmed down, lower cost entry systems came onto the market. Additionally, these newer models were designed to be upwardly compatible with larger systems so that obsolescence, while still a problem, became less of one.

Fortunately, the turnaround for digital controllers began in 1983. During that time, capital spending on new plant and equipment began to climb. In the past 5 years, manufacturing increased its annual spending from $116 billion to $163 billion. The reason for this growth was an increase in capacity utilization, which has risen from 70% in 1982 to 84% today, resulting in greater leadtimes and occasional spikes in prices.

According to Dr. Terry K. McMahon, an industrial automation consultant with McMahon Technolo-


WHY AMERICA MUST AUTOMATE
Although the U.S. leads the world in the labor productivity race...
Gross domestic product per employee (1986)
Canada France Germany U.K. Japan Korea
% 100 95 84 81 70 69 33
... it spends less than its rivals on automation...
Japan 18%
Europe 17%
Asia 14%
... leading to rapid declines in productivity
Korea Japan France U.K. Germany Canada
% 4.7 2.8 1.9 1.7 1.6 1.0 0.8

Productivity: the market catalyst

For the high-tech distributor, certain measures of America's productivity may be bad news for the country, but good news for digital process control merchants. As shown below, the U.S. is still the world's leader in labor productivity. And although other countries lag behind, according to the American Productivity & Quality Center in Houston, TX, that lead may be short-lived while countries like South Korea now improve productivity at a rate nearly six times faster than the U.S.

Says the Center's President Carl G. Thor, "The urgency for improved productivity relates to international competitiveness. We've got ourselves into a race which overall we're still leading, but our competitors are quickly gaining on us."

How long it would take for the U.S. to finally lose that race is anybody's guess. But should America eventually fall behind Japan, complacency in the international arena could even find the so-called Pacific Rim Tigers (Singapore, Hong Kong, Taiwan, and South Korea) coasting comfortably by their Asian competitors.

Not all measures of American competitiveness look bad, however. During the past 4 years, in fact, the U.S. has managed to regain some ground lost during the 1970s and early 1980s. Between 1982 and 1986, the U.S. improved its productivity performance at the robust rate of 2% per year. The reason for this reversal is improvement to both labor and capital productivity.

More directly affecting the demand for digital process control equipment has been manufacturing's healthy performance. Spurred by a dollar that has declined 37% over the past 2½ years, the U.S. is selling abroad more of everything it produces. And while the U.S. continues to import nearly twice as much as it exports, capacity utilization is returning to ten-year highs.

In turn, this performance has triggered a need for manufacturing to increase new plant and equipment expenditures by nearly 11%. And not with outdated, unproductive machinery, but by installing highly automated capacity capable of not only increasing productivity, but of achieving unheard of quality levels using process controllers and flexible automation technologies.

"We still have to be quality-improvement minded," says Thor, "or the U.S. risks being squeezed out of manufacturing and into the service sector." Should that happen, Americans may have to settle for a slightly lower standard of living. Cautions Thor, "The Englandization of America can be a reality if we don't get with it."

gy Assoc. in New York City, new plant construction has been the primary driver of the process control industry. While many companies installed retrofits of distributed digital controls into existing plants, says McMahon, in effect, the newer technology is edging out older mechanical, electromechanical and analog controllers.

Today, a control facility is a typical modernization expense, but is by no means inexpensive, nor is its technology universally understood at the plant level. What sells a system in 1988, explains high-tech distributor Bob Reese, is the promise of payback.

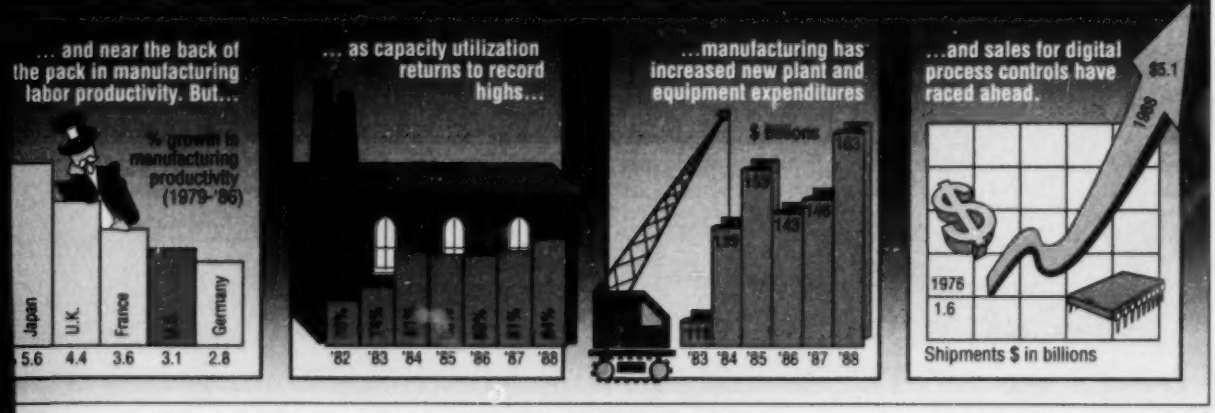
Recalling the installation of a quality control system for a food processor, Reese's INOTEK Corp. worried that its spectacular cost reduction estimates would not be taken seriously. To sidestep this possibility, the Dallas distributor intentionally "modified" payback calculations outward to avoid having the client feel it was fast-talked.

But far from being bombastic, Reese reports that according to the customer's estimates, the $80,000 system was 80% paid for during the first 2 months of operation, well ahead of the 2 years promised. "We tell our customers and prospects to 'come to us for solutions,'" says Reese, "and more and more the plant engineer is looking to the distributor to solve his problems."

A BILLION DOLLAR MARKET

Process controls, which are oftentimes called plant management systems, consist of computer hardware (PCs, minis, micros, mainframes, and hierarchical-type machines), system tools (digital sensors, transducers and actuators), and application software. According to the Automation Research Corp. of Medfield, MA, shipments of these systems will grow at a rate just above 11% through 1992. In 1987, sales surpassed the billion dollar mark for the first time, and by 1992, says the company's report, that figure will climb to nearly $1.8 billion.

While shipments are an important industry barometer, a more meaningful measure is market consumption. A recent Frost & Sullivan study conducted by Dr. McMahon predicts that, in contrast to the broader process control business, the U.S. market for digital process controls will experience strong growth through 1991.



THE MARKET

In fact, only 6 years ago, digital controls comprised 7.3% of the total market. But today, as the new technology eliminates the need for operator interface, 13.3% of sales finds its way to digital equipment manufacturers. Within that market, McMahon expects to see sales for programmable logic controllers increase 9% through 1991, hierarchical computers 6%, distributed systems 7%, and dedicated single-loop systems 5%.

However, because technology has depressed the overall cost of distributed systems, sales of dedicated multi-loop systems are expected to decline about 2%.

"Overall, I see the digital market growing 6% yearly," says McMahon, targeting the 1987 market at $625 million, reaching nearly $800 million by the early 1990s (see table). "Increasing U.S. concern with manufacturing competitiveness is a positive development for digital processors," he says, "as it provides the framework that can bring technological advances to manufacturing efficiency in the process industries."

IDENTIFYING THE MARKET

Purchasing the lion's share of the digital market are process industries experiencing high capacity utilization rates. They include chemical processors operating at 86% of capacity, petroleum refiners (85%), rubber and plastics (88%), and paper/pulp companies (95%). Add to this equation high capital spending on new plant and equipment, and the chemical process industries become the hottest market for selling digital automation technology.

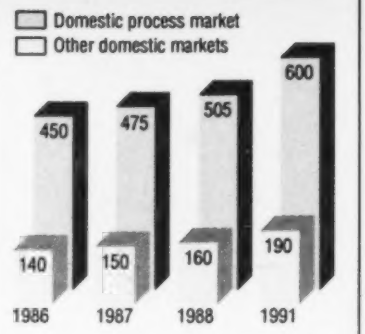
"There's no question about it," says Dr. McMahon. "Chemical process businesses are the people who have the need and the application for these types of equipment. And capital spending is the primary market driver. It's the most important factor affecting digital control shipments."

THE DISTRIBUTOR'S ROLE

While the economy at large may drive the market, some credit must be given to those players who actually sell the systems. Although high-tech distribution "is still in the toddler stage," says INOTEK's Bob Reese, he finds that there has been a shift away from the factory rep system to the use of distribution.

"The high-tech distributor provides the value-added capabilities," says Reese, noting that while most personal computers are being sold through the manufacturer, "there's a heavy channel of programmable logic controllers going through distribution."

U.S. DIGITAL PROCESS CONTROL MARKET
(millions of constant $)



Source: Frost and Sullivan

New plant construction has been the primary driver of the process control industry. —McMahon

At Miller & Dietz Co. in Fraser, PA, company President Robert O. Dietz shares the same view of the high-tech distributor's emerging role. "We went out into the market looking for products that would help a business solve efficiency problems," recalls Dietz. "A technical product is something requiring expertise in order to apply it. The need is supplied by the manufacturer, and the distributor serves that need."

The common denominator for any high-tech distributor is solution selling. For Miller & Dietz, selling efficiency and productivity was invariably the solution to many of its customers' problems. As it happens, solutions in the high-tech business are not individual control devices, but more commonly large, programmable systems.

"If you can sell the concept of a programmable controller," says Dietz, "then you can sell all sorts of commodity items, such as sensors." But selling a system is not as easy as chatting with a purchasing agent, leaving a brochure and following with a phone call one week later. In the world of high tech, the distributor's supplier is a partner in every respect. In fact, many distributors are dependent on their suppliers not only for technology updates but for their actual sales leads as well.

While in some cases the high-tech distributor can make ends meet by selling replacement parts at the maintenance level, or repairing items at the plant manager level, the best margins are obtainable in such value-added services as engineering turnkey systems. Selling to the plant engineer or at the corporate officer level is ultimately how the real money can be made.

When a distributor finds itself in the position of helping a company reduce the need for additional labor or, better yet, installing a system that will allow a customer to avoid building additional capacity when upgrading an existing plant will do, that's high-tech distribution at its very best. □

The hottest process control markets

Dr. Terry McMahon's recent report, *The Digital Process Control Market in the U.S.*, details the most likely industries to purchase automation controls. Prospects in particular need of automating manufacturing are those who process vast raw materials, have stringent quality control standards, and are large energy consumers.

Couple those characteristics with high capacity utilization rates and large increases in new plant and equipment spending, and your prospect list would grow to include chemical processors, petroleum refiners, pulp and paper processors, rubber and plastic fabricators, primary metals milling, food processors, mining, and utilities.

To obtain a copy of Dr. McMahon's report, contact: Frost & Sullivan Inc., 106 Fulton St., New York, NY 10038, or call (212) 233-1080. The price of report A1782 is $2,150.

SUPPLY OUTLOOK

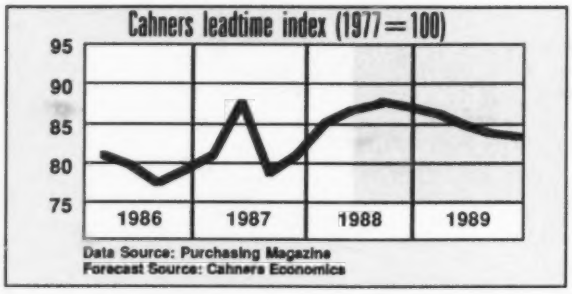
BY KRIS BLEDOWSKI

Fear of rising inflation evident

Full employment of resources may push prices up

Now that the economy has been growing robustly and has reached high levels of capacity utilization, there are signs that inflation may creep up. Interest rates have been rising steadily for the past several weeks and the Fed is not easing on its tight monetary targets.

Standard economics teaches that in order to accommodate growing output, the money supply should grow at a corresponding rate to provide liquidity needed to handle added transaction volumes. Excessive additions to the money stock produce the monetary inflation common in Latin America.

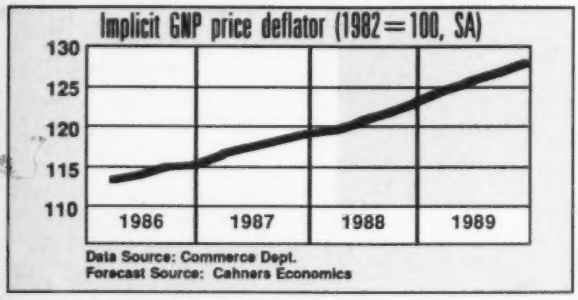


The U.S. has avoided this kind of inflation because it does not print money as a means to finance public debt.

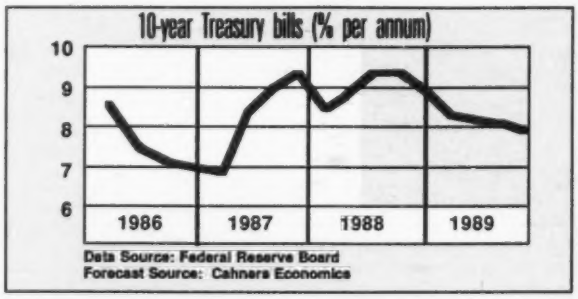
As the economy approaches full employment of resources, however, so-called cost-push inflation can flare up. Shortages of raw materials, capital goods and labor push prices up in response to mismatched supply and demand. This type of inflation in the real sector of the economy is prevalent in Europe, Japan and the U.S.

To control cost-push inflation, the Fed often prefers interest rate policy to monetary policy. Higher interest rates choke off capital and consumer spending through higher cost of borrowing. For instance, the average rate on 10-year Treasury bills went up 5.9% from first to second quarter, and it is expected to climb an additional 4.3% in the third quarter. Likewise, the implicit price deflator is expected to rise at an annualized rate of 4 to 5% through the remainder of this year after gaining only 2.97% last year.

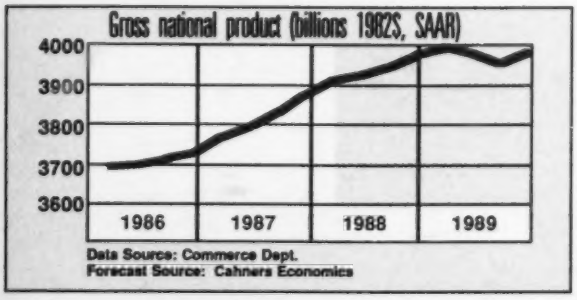
Meanwhile, capacity utilization in June crept up to 83.1% for total industry and was unchanged at 83.2% for manufacturing. Some sectors, particularly those already operating at high capacity such as plastics and paper, are begining to cool off. This is good news for inflation. □



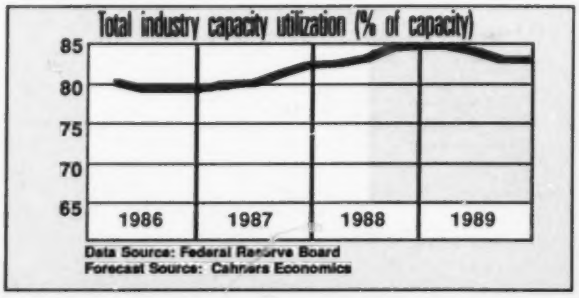
Inflation measured by the implicit GNP price deflator should flare up through 1989.



Expect the rates on 10-year Treasury bills to rise this year then drop back off in '89.



Strong economic growth will continue through the end of the year.



Most industries are operating under tight capacity constraints.